

**MINUTES OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON
Friday, September 17, 1999
9:00 A.M., M.S.T.**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room of the ASRS office at 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. James Jenkins, Chairman, Arizona State Retirement System Board called the meeting to order at 9:05 A.M., M.S.T.

The meeting was teleconferenced to the ASRS office, 7600 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

1. Call to Order; Roll Call.

Present: Mr. James Jenkins, Chairman
Dr. Chuck Essigs, Vice Chairman
Dr. Merlin DuVal
Mr. Alan Maguire
Mr. Norman Miller
Mr. Karl Polen
Mr. Ray Rottas
Mr. David Borg
Mr. Jim Bruner

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the August 20, 1999, Regular Meeting of the Arizona State Retirement System Board.

Motion: Mr. Ray Rottas moved to approve the minutes of the August 20, 1999, regular meeting of the ASRS Board.

Dr. Chuck Essigs seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

3. Board Approval of Consent Schedule.

Motion: Mr. Karl Polen moved that the Arizona State Retirement Board approve the System Transfers, Applications and Agreements between Employers and the Arizona State Retirement System, and the Extension of Investment Manager Contracts.

Mr. Jim Bruner seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

4. Board Hearing and Action by the Board Regarding the Request for Hearing of Ms. Manuela Montano.

Board discussion with Ms. Pam Moore, Fortis Representative and Mr. Fred Stork, Assistant Attorney General, regarding conflicting disability status letters from the same Doctor resulted in the following motion.

Motion: Mr. Alan Maguire moved that the matter be referred back to Fortis for clarification from the attending Doctor, in writing, explaining his determination under the rules in effect at that time and that his clarification will be brought back to the Board at the October meeting. At that time, depending upon his letter, the Board will determine if an additional Physician's opinion is required.

Mr. Karl Polen seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

5. Presentation, Discussion and Appropriate Action Regarding the Five Broad Investment Goals

Mr. Ken Brunke, Senior Vice President and Mr. Jay Kloepfer, Director of Capital Market Research, Callan Associates, Inc. gave a presentation regarding Establishing Priority Among Investment Goals for the Arizona State Retirement System. The current five investment goals for the ASRS are:

- 1) Retain safety as the principle consideration in the investment of the ASRS assets.
- 2) Achieve the actuarial investment return of 8%.
- 3) Maintain a minimum funded status of 100%.
- 4) Support an excess earnings Cost Of Living Allowance (COLA).
- 5) Maintain a relatively stable contribution rate.

The Board decided that rather than having the next scheduled Investment Review Board Committee meeting, they would hold a Special Board Meeting on October 5, 1999, to allow input from all Board Members regarding several Investment topics. At the October 5 meeting, the Board will review the original engagement letter of Callan Associates and the ongoing role and consequent costs of Callan Associates as they relate to the asset allocation study. Also discussed will be five broad investment or other goals of the ASRS.

6. Presentation, Discussion and Appropriate Action Regarding the Recommendation of Contract Renewal for Health Benefits and Long Term Disability Consulting Services and the Recommendation of Contract Renewal for Actuarial Services.

Motion: Mr. David Borg moved that the Arizona State Retirement Board approve the second renewal of the Health Benefits and Long Term Disability Consulting Services Contract with Buck Consultants, and also approve the second renewal of the Actuarial Consulting Contract with Watson Wyatt and Company.

Dr. Chuck Essigs seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

7. Presentation, Discussion and Appropriate Action Regarding the Extension of the LTD Consulting Contract, the Health Benefits Consulting Contract, the Actuarial Consulting Contract, the LTD Administrator Contract and the External Auditor Contract Through the Utilization of Board Consent Agenda Items.

Motion: Dr. Merlin DuVal moved that future extension of contracts for the LTD Consultant, Health Benefits Consultant, Actuarial Consultant, LTD Administrator, and External Auditor be authorized through the utilization of Board Consent Agenda items, after approval from ASRS staff and the appropriate Board Committee. The contract extensions will be placed on the Consent Agenda two months prior to the renewal date.

Mr. David Borg seconded the motion.

Mr. Ray Rottas was excused at 11:00.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 1 excused, the motion was approved.

Mr. Norman Miller was excused from the meeting at 11:05.

Mr. Ray Rottas returned to the meeting at 11:15.

8. Presentation, Discussion and Appropriate Action Regarding the Performance of Specialty Managers for the Period Ending June 30, 1999.

Mr. Terry Dennison, Principal, Mercer Investment Consulting, Inc., reported on the Specialty Investment Manager's performance for the Bank One, Arizona, NA Mortgage portfolio, Phoenix Investment Partners (Duff & Phelps), and Barclays Global Investors (BGI) for the period ending June 30, 1999.

Mr. Robert Dupnik, Vice President and Mr. Eric Rovelli, Vice President reported on the Bank One, Arizona, NA Mortgage portfolio performance for the period ending June 30, 1999.

Mortgages	QTR Ending 6/30/99	YTD	One Year	Three Years	Since Inception
ASRS Portfolio	-0.28	0.19	3.15	9.11	8.00
Giliberto-Levy Index	0.15	0.59	2.56	8.44	6.90
Total Value Added	-0.43	-0.40	0.59	0.67	1.10

Mr. Marvin E. Flewellen, Senior Vice President and Ms. Theresa D. Mozzocci, Vice President reported on Phoenix Investment Partners (Duff and Phelps) Zero Coupon Bond performance for the period ending June 30, 1999.

	Three Months	Six Months	One Year	*Three Years	*Five Years	*Since Inception
ASRS Zero Coupon Bonds	-1.2	-2.5	3.6	7.7	8.9	14.3
LB Aggregate	-0.9	-1.4	3.1	7.2	7.8	10.0
Total Value Added	-0.3	-1.1	0.5	0.5	1.1	4.3

* Annualized

Mr. Larry Tint, Vice Chairman reported on Barclay Global Investors (BGI), Tactical Asset Allocation (TAA) performance for the period ending June 30, 1999. The chart below indicates the returns as reported by Mercer Investment Consulting, Inc.

	Quarter ending June 30, 99	Six Months	One Year	Three Years	Five Years	April 84 to June 99
TAA Total	6.9	12.2	22.3	26.0	25.7	17.6
Benchmark	7.5	13.4	25.1	31.6	30.3	19.1
Total Value Added	-0.6	-1.2	-2.8	-5.6	-4.6	-1.5

Due to the need for Mr. Alan Maguire to be excused from the meeting, he wished to express his sentiments regarding the Director's Report.

Mr. Maguire commented regarding the auditor's review of service purchase cost calculations for the month of July which indicated a 100% accuracy rate. Mr. Maguire stated that this is admirable performance. He also expressed his appreciation for the performance reports included in the Director's report, which provided valuable management information to the Board.

Mr. Alan Maguire was excused from the meeting at 11:24

9. Presentation, Discussion and Appropriate Action with Respect to the Role of Tactical Asset Allocation (TAA) in the ASRS Fund.

Mr. Larry Tint, Vice Chairman of BGI spoke to the Board regarding the role of Tactical Asset Allocation with regard to the ASRS fund.

10. Director's Report

Mr. LeRoy Gilbertson stated he had no additional items beyond the materials provided to the Board.

Dr. Chuck Essigs also expressed that he was pleased that the service purchase calculations are moving along well and that members are getting accurate information.

Mr. Jim Bruner was excused from the meeting at 11:31

Mr. Ray Rottas was excused from the meeting at 11:37

11. Board Requests for Agenda Items.

Mr. Karl Polen informed the Board of upcoming agenda items for the ASRS Investment Review Board Committee.

Dr. Chuck Essigs stated that in the future he would like for the Board to have a discussion regarding the retirement benefit structure with respect to the purposes that the Legislature put into place for the ASRS.

Dr. Merlin DuVal addressed the need for a summary of the Statute changes.

12. Call to the Public.

Mr. Jim Seamans addressed the Board regarding the need to protect the public from major loss in the stock market.

There were no requests to speak from the Tucson public.

13. A special ASRS Board meeting is scheduled for Tuesday, October 5, at 2:00 p.m. in the 10th Floor Board Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012. The next Regular ASRS Board meeting is schedule for Friday, October 15, at 9:00 in the 10th Floor Board Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012.

14. Adjournment of the ASRS Board.

Mr. James Jenkins, Chairman adjourned the September 17, 1999, regular meeting of the ASRS Board at 11:56 p.m.

Respectfully submitted,

Shireen Boone, Secretary

Date

LeRoy Gilbertson, Director

Date